

Reps. Baird and Slaughter Introduce Legislation to Prohibit Insider Trading on Capitol Hill (May 16, 2007)

Washington, D.C. - In an effort to strengthen ethical standards and conduct in the U.S. House of Representatives, Congresswoman Louise Slaughter (NY-28), Chair of the House Rules Committee, and Congressman Brian Baird (WA-03) today re-introduced legislation to stop insider trading on Capitol Hill.

The Stop Trading on Congressional Knowledge Act, or STOCK Act, will prohibit Members of Congress and federal employees from profiting from nonpublic information they are able to obtain via their official positions, and require greater oversight of the growing political intelligence industry.

The original version of the Stop Trading on Congressional Knowledge Act (STOCK Act) was introduced last year by Reps. Baird and Slaughter. The new version introduced today has been strengthened to apply to all employees of the executive branch, in addition to Congressional staffers and Members of Congress.

Members of Congress and their staffs should not be above the law when it comes to profiting from sensitive information, said Congressman Baird. The American people expect Members and staffers to work on their behalf and to represent their interests, not to increase the returns on our investments and fatten our stock portfolios. Privileging a select group of investors with confidential information about congressional activity is not only a misuse of a congressional office, it also undermines investor confidence about the fairness and integrity of the securities market.

Insider trading is unethical whether it draws on information obtained from Congress or from companies themselves, said Rep. Slaughter. Members of Congress and federal employees often know what is happening before anyone else. They have access to incredibly sensitive information that can have a dramatic effect on the stock market. The potential for the improper use of that information is very real.

"The STOCK Act is not just necessary to ensure the integrity of our securities markets, as important as that is," Rep. Slaughter said. "It's about restoring integrity to this Congress."

BACKGROUND: WHY THE STOCK ACT IS NECESSARY

Under current law, Members of Congress and their staff do not owe a duty of confidentiality to Congress, and therefore are not liable for insider trading. The temptation for Members and government employees to use government information only they have access too when making investment decisions is a growing concern. A 2004 report from Georgia State University showed that United States Senators received investment returns that were approximately 25% higher than what typical Americans were able to achieve.

Furthermore, political intelligence firms, which provide investors with inside information about impending legislative action that can be used to inform investment decisions, have thus far operated largely in secret and without controls. What started out as a handful of firms in the 1970s, political intelligence companies have grown into an industry that brings in an estimated \$40 million a year. To cite but one recent example of questionable conduct made possible by the industry:

On November 15, 2005, the stock of a building materials company in Chicago (USG Corp) suddenly doubled, despite the fact that there was no publicly available news about the company, or industry, which explained the increase in volume. What the public didn't know yet, but what some investors discovered through back channels and political intelligence companies, was that then-Senate Majority Leader Bill Frist had quietly decided to move forward with legislation to relieve companies, such as USG Corp, of their liabilities in asbestos related lawsuits.

To address these issues, the STOCK Act will:

• Prohibit Members or employees of Congress from buying or selling stocks, bonds, or commodities futures based on nonpublic information they obtain because of their status;

• Prohibit Executive Branch employees from buying or selling stocks, bonds or commodities futures based on nonpublic information they obtain because of their status;

• Prohibit those outside Congress from buying or selling stocks, bonds, or commodities futures based on nonpublic information obtained from within Congress or the Executive Branch;

• Prohibit Members and employees from disclosing any non-public information about any pending or prospective legislative action obtained from a member or employee of Congress for investment purposes;

• Require Members of Congress and employees to report the purchase, sale or exchange of any stock, bond, or commodities future transaction in excess of \$1,000 within 90 days. Members and employees who choose to place their stock in holdings in blind trusts or mutual funds would be exempt from the reporting requirement; and,

• Require firms that specialize in political intelligence and obtain their information directly from Congress to register with the House and Senate, much like lobbying firms are now required to do. Political intelligence firms first appeared in the 1970s, but the industry remains relatively unknown because the firms are currently not required to register their clients or their earnings.

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